

**WASHINGTON STATE LIQUOR CONTROL BOARD**

**WINE STUDY**

Merchandise Committee

**March 27, 1996**

Resp to Costco RFP  
5856

<b>PLAINTIFF'S EXHIBIT</b>	
CASE NO.	<b>CV04-0360P</b>
EXHIBIT NO.	<b>143</b>

## TABLE OF CONTENTS

	<u>Page</u>
History of Wine Sales in Washington State - Fiscal Years 1934-1995 .....	1
Exhibit 1 - Wine Sales in Washington, in Gallons and Percent Increase Annually .....	3
Exhibit 2 - Wine Sales in Washington, in Gallons and Percent of Total .....	4
Exhibit 3 - Wine Sales in Washington of Washington Produced Wines .....	5
Pricing Structure .....	6
Exhibit 4 - Markup History on Board Sales of Wine .....	7
Exhibit 5 - Tax History on Board Sales of Wine .....	8
Profitability of Board Wine Sales .....	9
Exhibit 6, Page 1 - Merchandising Function, Net Profit by Product Line .....	10
Exhibit 6, Page 2 - Allocation of Expenses to Functions .....	11
Exhibit 6, Page 3 - Merchandising Function, Summary of Expenses .....	12
Exhibit 7 - Expenses Allocated to Wine That Could or Could not Cease if Board Went Out of Wine Business..	13
Exhibit 8 - Loss in Revenue With Board Going Out of Wine Business .....	15

## TABLE OF CONTENTS -- Continued

	<u>Page</u>
Current Wine Program in Stores and Agencies .....	16
Exhibit 9, September 1995 Wine Listings .....	17
Alternatives Considered to Current System .....	26
Recommendations .....	30
Stay in the Wine Business .....	30
New Wine Program .....	30
Exhibit 10, Shelf Arrangement Flow .....	36

### History of Wine Sales in Washington State - Fiscal Years 1934-1995

The Board actually started selling wine in 1934 shortly after Prohibition was lifted, but Board statistics do not begin until fiscal year 1935. One of the Board's first purchases of wine was a claret from California in bulk, which was then packed into one gallon jars in the warehouse bottling plant and sold at \$1.00 per gallon.

Prior to June 13, 1935, all wineries had to sell their products through the Board. The law was then changed so that domestic Washington wineries could sell wines directly to retail licensees, and they could appoint beer wholesalers as their agents. This pretty well set the tone until July 1, 1969. Out-of-state manufactured wines had to be sold first through the Board, so very little was, in turn, resold for off-premises consumption through retail licensees. Washington produced wine did not have to be sold through the Board, so most of it was sold direct through licensed wholesalers and retailers.

The 1969 Legislature passed House Bill 100, which changed things dramatically. For the first time, out-of-state manufactured wines could be sold directly through licensed channels without first having to be sold through the Board. The effects were significant from the very beginning. Total wine sales, based on Board sales plus winery sales to wholesalers, increased 53.5% in fiscal year 1970. Much of this was filling the pipeline, but 1971 sales, on the same basis, only dropped off one-half of one percent, and sales continued to stay at the high level with annual increases over the next five years averaging 6.5%. See Exhibit 1. For the five years previous to 1970, the average annual increase in wine sales was 8.2%, but the base level was much lower. The primary reason for the immediate large increase in sales was the increase in the number of retail outlets from the 273 state liquor stores and agencies to 4,187 class F licensed outlets (wine in the original package for off-premises consumption). The net effect was that the Board's share of the market dropped from 58.1% in 1969 to 24.8% in 1970, and at the same time, the sale of Washington produced wine in Washington dropped from 41.9% of the market to 18.7%. See Exhibits 2 and 3.

Washington produced wines continued to decline until in 1982 they represented only 4.6% of the Washington wine market. Today their share has increased to 17.9% totaling 2,553,393 gallons, with the creation of some of the best varietal wines in the world. See Exhibit 3. At the same time, exports of Washington wines were, in fiscal year 1995, 72.4% greater than in-state sales.

As stated earlier, the Board's share of the wine market in Washington was 58.1% in fiscal year 1969. It then settled on about 21% of the market from 1971 through 1976 and then dropped to about 18% for the next 6 years through 1982. It has continued its downward trend until in fiscal year 1995, it is barely above 8% of the market totaling 1,152,197 gallons. See Exhibits 1 and 2. This compares with about 5.9% of the total number of outlets in Washington that are authorized to sell wine in the original package for off-premises consumption.

Resp to Costco RFP  
5860

## WINE SALES IN WASHINGTON

In Gallons and Percent Increase Annually  
Fiscal Years 1969 - 1995

<u>Fiscal Year</u>	<u>Board Sales</u>	<u>% Increase</u>	<u>Winery Sales to Distributors</u>	<u>% Increase</u>	<u>Total Sales</u>	<u>% Increase</u>
1969	2,519,311	14.21	1,819,311	6.70	4,338,622	10.94
1970	1,649,487	(34.53)	5,010,241	175.39	6,659,728	53.49
1971	1,429,607	(13.33)	5,194,577	3.67	6,624,184	(.53)
1972	1,379,462	(3.51)	5,783,784	11.34	7,163,246	8.13
1973	1,406,618	1.97	6,184,199	6.92	7,590,817	5.96
1974	1,707,162	21.37	6,313,200	2.09	8,020,362	5.66
1975	1,929,211	13.01	6,348,485	.56	8,277,696	3.21
1976	1,921,611	(.39)	7,128,766	12.29	9,050,377	9.33
1977	1,786,145	(7.05)	8,015,090	12.43	9,801,235	8.30
1978	1,855,569	3.89	8,605,385	7.36	10,460,954	6.73
1979	2,041,981	10.05	9,432,893	9.62	11,474,874	9.69
1980	2,286,153	11.96	10,094,621	7.02	12,380,774	7.89
1981	2,488,901	8.87	11,184,721	10.80	13,673,622	10.44
1982	2,554,598	2.64	11,310,445	1.12	13,865,043	1.40
1983	2,233,979	(4.09)	11,542,878	2.06	13,776,857	(.64)
1984	2,010,071	(10.02)	12,319,546	6.73	14,329,617	4.01
1985	1,795,847	(10.66)	14,130,900	14.70	15,926,747	11.15
1986	1,662,259	(7.44)	15,176,043	7.40	16,838,302	5.72
1987	1,802,967	8.46	15,115,936	(.40)	16,918,903	.48
1988	1,786,849	(.89)	14,288,780	(5.47)	16,075,629	(4.98)
1989	1,581,267	(11.51)	13,988,615	(2.10)	15,569,882	(3.15)
1990	1,447,604	(8.45)	13,475,827	(3.67)	14,923,430	(4.15)
1991	1,363,564	(5.81)	13,569,324	.69	14,932,888	.06
1992	1,342,681	(1.53)	13,399,073	(1.25)	14,741,754	(1.28)
1993	1,353,516	.81	12,727,917	(5.01)	14,081,433	(4.48)
1994	1,252,710	(7.45)	12,909,553	1.43	14,162,263	.57
1995	1,152,197	(8.02)	13,148,410	1.85	14,300,607	.98

Resp to Costco RFP  
5861



WINE SALES IN WASHINGTON  
IN GALLONS AND PERCENT OF TOTAL  
Fiscal Years 1969 - 1995

<u>Fiscal Year</u>	<u>Gallons</u>	<u>% Board Sales</u>	<u>% Winery Sales to Distributors</u>
1969	4,338,622	58.1	41.9
1970	6,659,728	24.8	75.2
1971	6,624,184	21.6	78.4
1972	7,163,246	19.3	80.7
1973	7,590,817	18.5	81.5
1974	8,020,362	21.3	78.7
1975	8,277,696	23.3	76.7
1976	9,050,377	21.2	78.8
1977	9,801,235	18.2	81.8
1978	10,460,954	17.7	82.3
1979	11,474,874	17.8	82.2
1980	12,380,774	18.5	81.5
1981	13,673,622	18.2	81.8
1982	13,865,043	18.4	81.6
1983	13,776,857	16.2	83.8
1984	14,329,617	14.0	86.0
1985	15,926,747	11.3	88.7
1986	16,838,302	9.9	90.1
1987	16,918,903	10.7	89.3
1988	16,075,629	11.1	88.9
1989	15,569,882	10.2	89.8
1990	14,923,430	9.7	90.3
1991	14,932,888	9.1	90.9
1992	14,741,754	9.1	90.9
1993	14,081,433	9.6	90.4
1994	14,162,263	8.8	91.2
1995	14,300,607	8.1	91.9

# WINE SALES IN WASHINGTON OF WASHINGTON PRODUCED WINES

Fiscal Years 1969 - 1995

<u>Fiscal Year</u>	<u>Gallons</u>	<u>% Total Wine Sales in Washington</u>
1969	1,819,311	41.93 %
1970	1,242,645	18.66 %
1971	1,114,197	16.82 %
1972	1,060,455	14.80 %
1973	960,791	12.66 %
1974	912,238	11.37 %
1975	792,671	9.53 %
1976	720,674	7.96 %
1977	670,664	6.84 %
1978	619,962	5.93 %
1979	637,400	5.55 %
1980	666,811	5.39 %
1981	637,060	4.66 %
1982	633,860	4.57 %
1983	744,638	5.40 %
1984	1,024,743	7.15 %
1985	1,157,648	7.27 %
1986	1,244,410	7.39 %
1987	1,450,342	8.57 %
1988	1,836,339	11.42 %
1989	2,184,084	14.03 %
1990	2,365,731	15.85 %
1991	2,447,616	16.39 %
1992	2,362,885	16.03 %
1993	2,402,291	17.06 %
1994	2,532,690	17.88 %
1995	2,553,393	17.86 %



### Pricing Structure

The Board's pricing structure has changed over the years due to changes in the rate of markup and in the tax structure.

In the very beginning, the Board assessed a uniform markup on spirits, wine and strong beer at a rate of 25% on cost, and the tax rate was 10%. In 1935, the Board began assessing a higher markup on what was then described as dessert wines (wines 14% alcohol and over) and continued to do so until May 1, 1972, when the markup rates on all wines were again standardized this time at 53.6%.

Beginning in January 1988, flex pricing was established so that the Board's retail wine prices could more nearly parallel those of other retailers. At that time, all retail selling prices of wine were rounded up to the next even nickel. In April 1988, the Board began rounding the retail selling price on wines to 9 cent price points. For example, from \$5.05 to a more appealing retail price of \$4.99, and from a \$4.90 price point to \$4.99 with an overall goal of maintaining a level of 50% gross profit on delivered cost. See Exhibit 4.

Taxes on Board sales of wine have also changed over the years. In 1935, there was a 10% sales tax. This grew to a 10% plus 3% plus 10% tax during World War II. On March 1, 1949, it was cut back just to the state general retail sales tax rate of 3% but quickly went back up until on July 1, 1969, it totaled 26%. Today the tax rates on wine are 22.92¢ per liter on wines 14% alcohol and under and 45.36¢ per liter on wines over 14%, plus in each case the state and local general retail sales taxes, which total 8.2% in King County. See Exhibit 5.

Resp to Costco RFP  
5864

# MARKUP HISTORY ON BOARD SALES OF WINE

<u>Year</u>	<u>Explanation</u>	Table Wines %	Dessert Wines %
1934		25.0	25.0
1935		35.0	53.0
1938		40.0	53.0
1940		45.0	53.0
1941	10/1/41, when federal tax was increased	40.0	53.0
1949	3/1/49, increased markup to absorb 10% sales tax and 10% war liquor tax	58.0	71.0
1951	11/1/51, when federal tax was increased	53.6	66.3
1972	5/1/72, standardized markup on all wine	53.6	53.6
1973	7/1/73, standardized markup on all products	45.9	45.9
1982	7/1/82, markup increased on wine when Board extended matching TPR's to wine	60.0	60.0
1985	11/1/85, reduced markup on wine with goal of 50% effective markup	50.0	50.0

## Exhibit 5

## TAX HISTORY ON BOARD SALES OF WINE

Year	Explanation	Wine %
1935	5/1/35, 10% liquor tax	10.0
1939	5/1/39, 2% sales tax added	10.0, 2.0
1941	5/1/41, 2% raised to 3%	10.0, 3.0
1943	4/1/43, 10% war liquor tax added	10.0, 3.0, 10.0
1949	3/1/49, 10% liquor tax and 10% war liquor tax removed and incorporated into markup	3.0
1951	11/1/51, 3% replaced by 10%	10.0
1959	4/1/59, 10% raised to 15%	15.0
1969	7/1/69, tax on wine increased to 26%	26.0
1973	7/1/73, 26% sales tax on wine replaced with 75¢ gallon tax	\$ .75
1981	7/1/81, 75¢ gallon tax on wine replaced with \$ .2025 liter tax; general retail sales taxes (GRST) extended to Board sales	\$ .2025 liter, GRST
1982	5/1/82, added 4% surcharge	\$ .2106 liter, GRST
1982	8/1/82, surcharge increased to 7%	\$ .2167 liter, GRST
1987	7/1/87, tax on wine increased .0025¢	\$ .2192 liter, GRST
1989	7/1/89, tax on wine under 14% alcohol increased 1¢ per liter, and tax 14% alcohol and over increased 23.44¢ per liter	\$ .2292 liter under 14%, \$ .4536 liter 14% & over, GRST

### Profitability of Board Wine Sales

The question is not really so much one of how much profit does the Board make on its wine sales as it is one of how much revenue would be lost if the Board went out of the wine business.

In fiscal year 1995, Board sales of wine totaled \$19,096,133 with gross profit of \$5,047,908. When the Board's operating expenses, including a pro rata share of the Board's headquarters overhead, is assigned by product line (spirits, wine and beer) on a cost accounting basis, the Board shows a negative net profit of \$866,185 on wine. When Board expenses are allocated on the basis of gross dollar sales, the Board shows a positive net profit of \$2,579,374 on wine. See Exhibit 6, Page 1.

Many of the expenses allocated to wine on a cost accounting basis will not go away if the Board goes out of the wine business. Some of the bigger items include a goodly portion of agency commissions, which are allocated in total, but when going out of the wine business would be primarily in the over \$21,000 per month of sales grouping, which is at the lowest commission rate. Likewise for store salaries, which are allocated in total but in reality would be reduced at store clerk wages and can't be reduced below a minimum level. Likewise, store rents and utilities would continue, as would all of the administrative overhead. See Exhibit 7. Of the \$5,914,093 of expenses that were allocated to wine sales on a cost accounting basis for FY 1995 (Exhibit 6), we can practically only get out of \$2,206,865 (Exhibit 7). This means the balance of the expenses would have to be allocated to spirit sales with the result that our getting out of the wine business would really result in the loss of \$2,841,043. See Exhibit 8.

## WASHINGTON STATE LIQUOR CONTROL BOARD

Merchandising Function Net Profit by Product Line Fiscal Year 1995					
	Distilled Spirits	Wine	Strong Beer	Other	Total
Gross Sales	\$349,000,441	\$19,096,133	\$1,243,270	\$389,611	\$369,729,454
Less:					
Discounts & Tax Exemptions	20,106,969	510,621	199	0	20,617,790
Liquor Sales Taxes	94,401,076	1,333,709	92,325	9,519	95,836,628
Wine Tax on Purchases	0	1,134,131	0	0	1,134,131
NET SALES	\$234,492,395	\$16,117,672	\$1,150,745	\$380,092	\$252,140,905
COST OF GOODS SOLD	163,875,319	11,069,764	710,744	340,029	175,995,856
GROSS PROFIT ON SALES	\$70,617,076	\$5,047,908	\$440,001	\$40,063	\$76,145,049
Less:					
Cost Accounting Allocation of Expenses	41,190,542	5,914,093	680,712	9,142	47,794,488
Net Profit by Product Line	<u>\$29,426,534</u>	<u>(\$266,185)</u>	<u>(\$240,710)</u>	<u>\$30,921</u>	\$28,350,561
Other Income					518,311
Total Net Profit					<u>\$28,868,872</u>
Alternate Allocation of Expenses:					
Gross Profit on Sales & Other Income	\$70,617,076	\$5,047,908	\$440,001	\$40,063	\$76,145,049
Expenses Allocated on Gross Dollar Sales	45,114,873	2,468,534	160,716	50,365	47,794,488
Net Profit by Product Line	<u>\$25,502,203</u>	<u>\$2,579,374</u>	<u>\$279,285</u>	<u>(\$10,301)</u>	\$28,350,561
Other Income					518,311
Total Net Profit					<u>\$28,868,872</u>

NOTE: Columns may not add vertically or horizontally due to rounding of cents.

## WASHINGTON STATE LIQUOR CONTROL BOARD

Allocation of Expenses to Functions  
Fiscal Year 1995

		Merchandising <u>Function</u>	Regulatory <u>Function</u>	<u>Total</u>
Administration				
Board	50%-50%	248,865.14	248,865.14	497,730.28
Financial	90%-10%	2,839,817.72	315,535.31	3,155,353.03
Data Processing	75%-25%	1,657,898.25	552,632.75	2,210,531.00
Personnel	90%-10%	397,292.22	44,143.58	441,435.80
Legal	10%-90%	44,031.99	396,287.93	440,319.92
Public Information	25%-75%	50,943.36	152,830.10	203,773.46
Regulatory				
Hearing	0%-100%	.00	152,017.56	152,017.56
Licensing	0%-100%	.00	1,061,804.91	1,061,804.91
Enforcement	0%-100%	.00	4,533,071.70	4,533,071.70
MIW	0%-100%	.00	468,919.44	468,919.44
Alcohol Awareness	0%-100%	.00	164,490.43	164,490.43
Merchandising				
Agencies	100%-0%	6,616,290.83	.00	6,616,290.83
Purchasing	100%-0%	489,278.47	.00	489,278.47
Stores	100%-0%	30,636,878.01	.00	30,636,878.01
Supervision	100%-0%	1,582,668.61	.00	1,582,668.61
Distribution Center	100%-0%	3,230,523.70	.00	3,230,523.70
		<u>47,794,488.30</u>	<u>8,090,598.85</u>	<u>55,885,087.15</u>

Resp to Costco RFP  
5869

## WASHINGTON STATE LIQUOR CONTROL BOARD

Merchandising Function  
Summary of Expenses--Merchandising Function  
Allocated to Product Line  
Fiscal Year 1995

	Distilled Spirits	Wine	Beer	Other	Total
Warehouse Case Inventory	97,753	20,309	4,043	50	122,155
Depreciation Building, Utilities, Insurance, Pro-rata Admin.	80.02%	16.63%	3.31%	0.04%	100.00%
Store Case Inventory	6,466,830	2,621,262	233,971	3,471	9,325,535
Rent, Utilities, Insurance, Pro-rata Admin.	69.35%	28.11%	2.51%	0.04%	100.00%
Agencies Case Inventory	1,068	200	23	0	1,291
Insurance, Pro-rata Admin.	82.68%	15.50%	1.81%	0.01%	100.00%
Agencies Dollar Sales	7,022,030	214,574	13,992	552	7,251,148
Salaries, Employee Benefits, Pro-rata Admin.	96.84%	2.96%	0.19%	0.01%	100.00%
Total Case Sales	3,426,862	520,402	107,134	1,178	4,055,577
Purchasing, Balance of Warehouse, Pro-rata Admin.	84.50%	12.83%	2.64%	0.03%	100.00%
Stores Units Sold	22,406,758	2,371,545	300,979	3,641	25,082,923
Balance of Stores, Pro-rata Admin.	89.33%	9.45%	1.20%	0.01%	100.00%
Agencies Units Sold	168,376	9,018	950	11	178,355
Balance of Agencies, Pro-rata Admin.	94.40%	5.06%	0.53%	0.01%	100.00%
Stores and Agencies Units Sold	1,600,866	156,783	19,619	237	1,777,504
Stores Supervision, Pro-rata Admin.	90.06%	8.82%	1.10%	0.01%	100.00%
Total	41,190,542	5,914,093	680,712	9,142	47,794,488
	86.18%	12.37%	1.42%	0.02%	100.00%

Resp to Costco RFP  
5870



# WASHINGTON STATE LIQUOR CONTROL BOARD

## Expenses Allocated to Wine That Could or Could Not Cease if Board Went Out of Wine Business

Fiscal Year 1995

	Expenses That Could Stop	Expenses That Could Not Stop
<b>Agencies:</b>		
Salaries and Employee Benefits Based on Sales		
20.38% First \$10,500 Monthly		
7.128% Second \$10,500 Monthly		
5.430% Over \$21,000 Monthly		
Removal of Wine Will Come Primarily from Second Group.		
7.128% Used as Compared to 12.37% Overall.	\$109,543	\$81,512
Insurance		178
Supplies, Printing and Breakage	4,589	
Other		3,440
<b>Stores:</b>		
Salaries and Employee Benefits Based on Staffing Table		
53.97 Staff Years of the Total Allocated to Wine Can be		
Discontinued,		
But They Will be at the Lower Clerk Wages Rather Than the	1,637,710	366,802
Average		
All Employees		
Supplies, Printing, Communications, Cash Shortage, Breakage	114,419	
Insurance	18,770	
Building Rent and Utilities		2,299,358
Other		108,049

Resp to Costco RFP  
5871

	Expenses That Could Stop	Expenses That Could Not Stop
<b>Warehouse:</b>		
Salaries and Employee Benefits		
6.37 Staff-Years of the Total Allocated to Wine Can be Discounted	207,372	47,455
Supplies, Printing Communications and Breakage	77,352	
Insurance	3,368	
Depreciation Building and Utilities		43,539
Other		5,573
<b>Purchasing:</b>		
Salaries and Employee Benefits		
1 Buyer	33,742	
Other		7,603
<b>Supervision:</b>		156,783
<b>Administration:</b>		586,936
<b>TOTAL</b>	<b>\$2,206,865</b>	<b>\$3,707,228</b>

## WASHINGTON STATE LIQUOR CONTROL BOARD

Loss in Revenue With Board Going Out of Wine Business  
Based on Fiscal Year 1995

	<u>Wine</u>
Gross Sales	\$19,096,133
Tax Exemption and Discounts	510,621
General Retail Sales	1,333,709
Wine Tax on Purchases	<u>1,134,131</u>
Net Sales	\$16,117,672
Cost of Goods Sold	<u>11,069,764</u>
Gross Profit	\$ 5,047,908
Expenses That Could be Discontinued	<u>2,206,865</u>
Net Loss in Revenue	<u><u>\$2,841,043</u></u>

Alternate Summary Calculation:	<u>In Wine Business</u>	<u>Out of Wine Business</u>
Total Gross Profit All Products	\$76,145,049	\$71,097,141
Less Expenses	<u>47,794,488</u>	<u>45,587,623</u>
Total Net Profit All Products	\$28,350,561	\$25,509,518
Loss in Net Profit		<u><u>\$ 2,841,043</u></u>

Note: Columns may not add exactly due to rounding

### Current Wine Program in Stores and Agencies

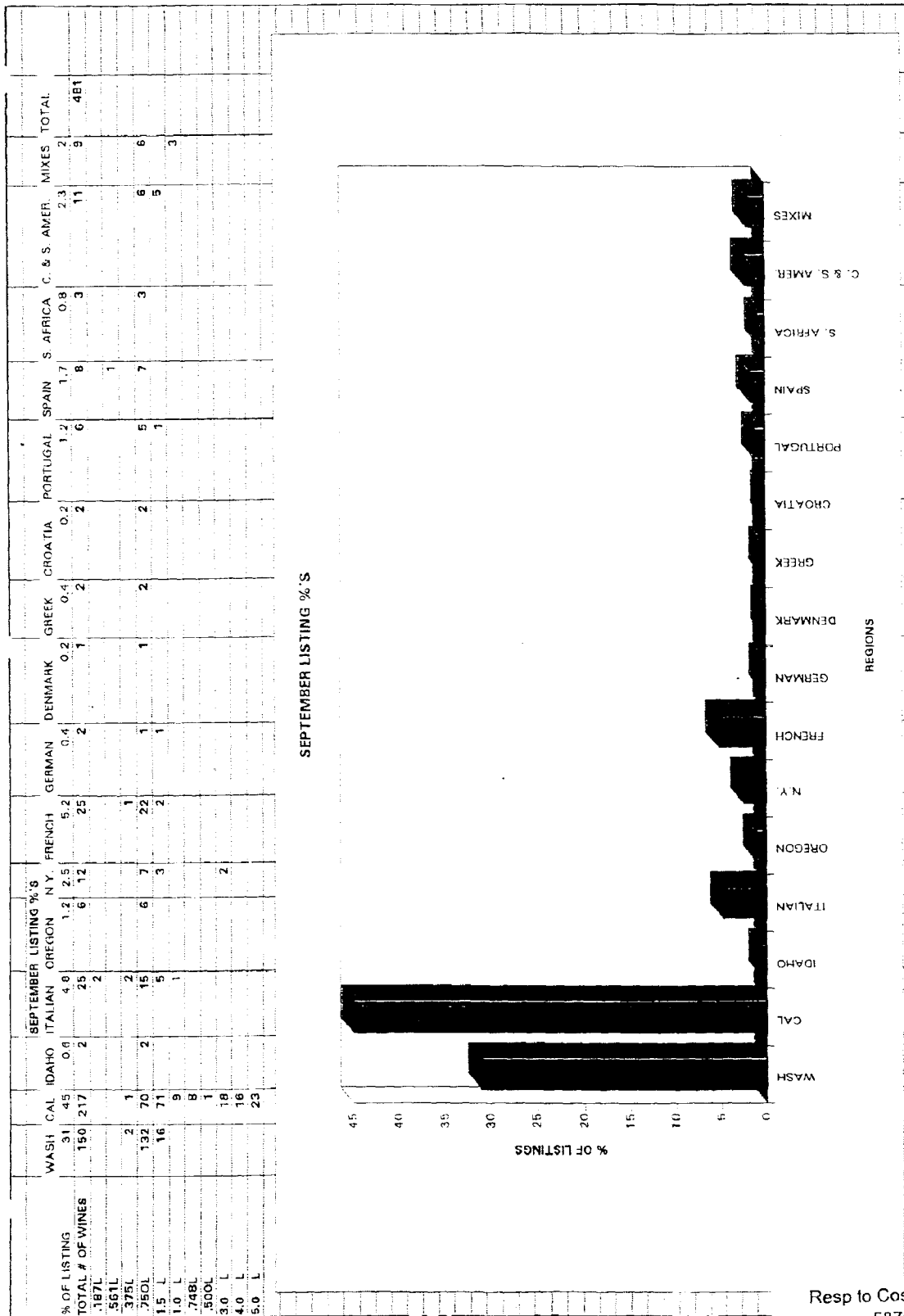
Currently, the majority of the stores are displaying their wines on the wall to the right as the customer enters the store. Some stores have a wine "cellar" in addition to the standard wine shelf display. Some stores have wine gondolas in the lobby, others utilize lobby tables, some use other lobby display methods, and a few do not use any floor display fixtures to display wine. Some stores have reduced their spirit POP displays to allow for wine POP displays.

For the last 3 to 4 years, the stores have had a basic shelf set for wines. Starting near the front door and working back towards the rear of the lobby, the customer would see imported wines, Northwest wines, California "boutique" wines, and champagnes. Economy wines, jug wines, and box wines may be on the shelf or on a lobby table(s). Some table wines may be on the shelf as well as on a wine gondola(s). Within a category, wines are displayed in one of two arrangements.

**Example:** Northwest wines (which are primarily Washington wines) may be displayed by label (Ste. Michelle, Preston, Hogue), or by type (Chablis, Burgundy, Chardonay). The manager has the discretion to select the arrangement that best meets the needs of the store's customers.

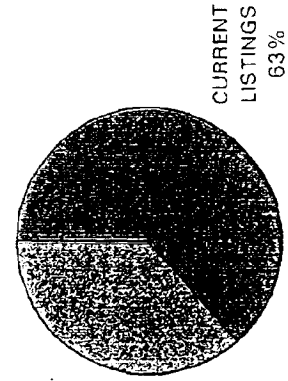
Some store managers use various props and display methods to advise the customer of new items, wines of value, wines unique to the area, wines from an area, award winning wines, etc. In addition to displaying them prominently, many of these managers utilize informative signage. Board-approved POP "back cards" are available to the store from the winery representative. The manager has the option to use these cards when building a display, assuming the sales of the item justify the display.

As of September 1995, the Board had 481 different wines listed in 11 different sizes ranging from the .187 liter to the 5.0 liter size. The wines listed were produced in 5 different states, 8 European countries, South Africa, and Central and South America. The greatest number of listings and wines were from California with 45% and 217 and Washington with 31% and 150. See Exhibit 9, pages 17-25, for a collage of listings by place of origin, percent of listings, and number of wines and sizes.



Resp to Costco RFP  
5875

SEPTEMBER 1995 WINE LISTINGS									
CAL	217								
WASH	150								
NEW YORK	12								
AFRICA	3								
FRENCH	25								
GERMANY	2								
DENMARK	1								
IDAHO	2								
OREGON	6								
ITALIAN	25								
GREEK	2								
CEN. & S. AMERICA	11								
CROATIA	2								
PORTUGAL	6								
SPAIN	8								
MIXES	9								
TOTAL	481								
SEPTEMBER LISTING									
CURRENT LISTINGS	481								
CLOSEOUT / DISC.	279								
GRAND TOTAL	760								



Resp to Costco RFP  
5876

CALIFORNIA				WINES			
#	SIZE		#	SIZE		#	SIZE
MADERA	1 750ML	CHN BLNC/ PIN	1	1.5L	GRENACHE	1	5.0L
MARSALA	1 750ML	CHN BLNC/ PIN	1	3.0L	TOTAL	1	
PORT	4 750ML	CHN BLNC/ PIN	2	5.0L			
PORT	3 1.5L	TOTAL	4		WHITE ZIN	4	750ML
PORT	1 3.0L				WHITE ZIN	1	1.0L
TOTAL	10	FR. COLUMBARD	1	1.5L	WHITE ZIN	5	1.5L
SHERRY	5 750ML	FR. COLUMBARD	2	3.0L	WHITE ZIN	3	748L
SHERRY	6 1.5L	FR. COLUMBARD	1	5.0L	WHITE ZIN	1	500L
OTHER	3 750ML	TOTAL	4		WHITE ZIN	1	5.0L
OTHER	1 1.5L				TOTAL	15	
TOTAL	15	JO. RIES	2	1.5L			
WHL VER.	1 375ML	JO. RIES	1	3.0L	PINK TBL/OTHER	1	750ML
WHL VER.	3 750ML	TOTAL	3		PINK TBL/OTHER	1	5.0L
RED VER.	2 750ML	SAUV. FUME BL	1	750ML	TOTAL	2	
TOTAL	6	SAUV. FUME BL	1	1.0L			
CHABLIS	1 1.0L	SAUV. FUME BL	4	1.5L			
CHABLIS	5 1.5L	SAUV. FUME BL	1	5.0L			
CHABLIS	5 3.0L	TOTAL	7				
CHABLIS	2 4.0L	OTHER VAR.	1	4.0L			
CHABLIS	3 5.0L	TOTAL	1				
TOTAL	16	PINK CHABLIS	1	1.0L			
RHINE	1 1.0L	PINK CHABLIS	1	3.0L			
RHINE	4 1.5L	TOTAL	2				
RHINE	2 3.0L	DOM ROSE	4	1.5L			
RHINE	3 4.0L	DOM ROSE	2	3.0L			
RHINE	3 5.0L	DOM ROSE	2	4.0L			
TOTAL	13	TOTAL	8				
WHL TBL	2 1.5L	PINK TBL-OTHER	4	1.5L	CONT....		
WHL TBL	1 5.0L	PINK TBL-OTHER	2	3.0L	CALIFORNIA WINES		
CHARD/ PK BL	2 748L	PINK TBL-OTHER	2	4.0L	NEXT PAGE->		
CHARD/ PK BL	7 750ML	PINK TBL-OTHER	3	5.0L			
CHARD/ PK BL	7 1.5L	TOTAL	11				
CHARD/ PK BL	1 1.0L						
TOTAL	20						

Resp to Costco RFP

5877



CONT.... CALIFORNIA				#	SIZE
BURG	2	750ML			
BURG	1	1.0L			
BURG	2	1.5L			
BURG	1	3.0L			
BURG	2	4.0L			
BURG	2	5.0L			
TOTAL	10				
RED	4	1.5L			
RED	2	4.0L			
RED	2	5.0L			
TOTAL	8				
CAB SAUV	1	748ML			
CAB SAUV	7	750ML			
CAB SAUV	1	1.0L			
CAB SAUV	7	1.5L			
CAB SAUV	1	5.0L			
TOTAL	17				
MERLOT	5	750ML			
MERLOT	1	1.0L			
MERLOT	1	1.5L			
TOTAL	7				
SYRAH	1	750ML			
TOTAL	1				
PINOT NOIR	1	1.5L			
TOTAL	1				
ZIN.	1	1.5L			
TOTAL	1				
OTHER	1	500ML			
OTHER	1	1.5L			
TOTAL	2				
GRAND TOTAL			217		

WASHINGTON				CONT. WASHINGTON				NEW YORK			
#	SIZE		RED	750ML	1.5L			#	SIZE		
PORT	750ML		RED	1	1			MADEIRA	750ML		
TOTAL			TOTAL	1	2			TOTAL			
WHITE	750ML		CAB SAUV.	1	1			PORT	750ML		
WHITE	1.5L		CAB SAUV.	16	16			PORT	3.0L		
CHRD. / PIN	750ML		TOTAL	17	17			SHERRY	750ML		
TOTAL								OTHER	750ML		
			GAM BJALS	2	2			CONCORD	750ML		
CHN. BLN. / PIN	750ML		TOTAL	2	2			TOTAL			
TOTAL											
GEWURTZ.	750ML		MERLOT	10	10			FLAVORED	1.5L		
TOTAL			TOTAL	10	10			KOSHER	1.5L		
JO. RIES.	750ML		PINOT NOIR	2	2			TOTAL			
JO. RIES.	1.5L		TOTAL	2	2						
JO. RIES.	375ML		OTHER RED	10	10						
TOTAL			TOTAL	10	10						
SAUV. / FUME BL	750ML		CHAMPAGNE	2	2						
SAUV. / FUME BL	1.5L		TOTAL	2	2						
TOTAL											
SEMILLON	750ML		FL. LOGAN	1	1						
SEMILLON	1.5L		TOTAL	1	1						
TOTAL											
OTHER VAR.	750ML		FL. RASP	2	2						
TOTAL			FL. OTHER	1	1						
			TOTAL	3	3						
P. TBL. / OTHER	750ML										
P. TBL. / OTHER	1.5L										
TOTAL											
P. TBL. / D. GAMAY	750ML		GRAND TOTAL	150				GRAND TOTAL			
TOTAL											

Resp to Costco RFP  
5879

S. AFRICA			FRENCH			GERMAN		
#	SIZE		#	SIZE		#	SIZE	
2	750ML	PORT	1	750ML	APERITIF	1	750ML	WHITE
1	750ML	SHERRY	1	750ML	WT. VERM	1	375ML	WHITE
3		TOTAL	3		RED VER.	1	750ML	TOTAL
					TOTAL	4		
					BORDEAUX	1	750ML	
					BURGUNDY	2	750ML	
					BURGICHARD	1	750ML	
					CHARD	1	750ML	
					WHITE	1	1.5L	
					TOTAL	6		
					RED BORD	3	750ML	
					BURG	1	750ML	
					RHINE	1	750ML	
					RED OTHER	3	750ML	
					RED TABLE	1	1.5L	
					TOTAL	9		
					CHAMPAGNE	7	750ML	
					SPARKLING	1	750ML	
					TOTAL	8		
GRAND TOTAL	3		GRAND TOTAL	27		GRAND TOTAL	2	

Resp to Costco RFP  
 5880

Resp to Costco RFP  
5880

DENMARK			IDAHO			OREGON		
	#	SIZE		#	SIZE		#	SIZE
CHERRY	1	750ML	CHARD/PIN	1	750ML	CHARD/PIN BL.	2	750ML
TOTAL	1		TOTAL	1		OTHER VAR	1	750ML
						TOTAL	3	
			MERLOT	1	750ML	PINOT NOIR	3	750ML
			TOTAL	1		TOTAL	3	
GRAND TOTAL	1		GRAND TOTAL	2		GRAND TOTAL	6	

Resp to Costco RFP  
5881

ITALIAN			GREEK			CENTRAL			SOUTH AMERICAN		
#	SIZE		#	SIZE		#	SIZE		#	SIZE	
MARSALA	2	750ML	RETSINA	2	750ML	WHITE	1	750ML			
TOTAL	2		TOTAL	2		CHARD	1	750ML			
WH. VERM.	1	375ML				WHITE	2	1.5L			
WH. VERM.	3	750ML				TOTAL	4				
TOTAL	4										
RED VER.	1	375ML				RED	4	750ML			
RED VER.	3	750ML				RED	3	1.5L			
TOTAL	4					TOTAL	7				
WHITE	1	1.5L									
CHARD	1	1.5L									
PINOT GRIGIO	1	750ML									
SOAVE	1	187ML									
CASARSA	1	1.5L									
RED BARDOLINO	1	750ML									
CHIANTI	3	750ML									
CHIANTI	1	1.0L									
LAMBRUSCO	2	1.5L									
VALPOLICEL	1	187ML									
VALPOLICEL	1	750ML									
TOTAL	14										
SPARKING	3	750ML									
TOTAL	3										
GRAND TOTAL	27		GRAND TOTAL	2		GRAND TOTAL	11				

Resp to Costco RFP  
5882

[illegible]

### Alternatives Considered to Current System

1. Arrange the wine categories to meet the needs of the customer (display by the type or label).
  - a) Fits the customer shopping pattern.
  - b) Encourages trade up from bulk wines to premium.
  - c) Arrange premium 750ML by region and then by variety.
  - d) Best selling varieties on top shelves (Chardonay, Cabernet, White Zinfandel, Merlot, Sauvignon Blanc). Bottom ones (Riesling, Gewurztraminer, Chenin Blanc, Semillon, Muscat).
  - e) Bulk wines to be displayed away from table wines (separate sections or lobby tables).
  - f) Gondolas
    - i) Flexible and rotated.
    - ii) Premium monthly TPRs, the most expensive wines carried.
    - iii) Unique types that don't seem to fit elsewhere.
2. Develop a new shelf arrangement flow.
  - a) Front to back on right wall or right to left on back wall: Washington/Northwest, California premium, California popular, imported table, sparkling, desserts, economy, box wines, coolers. Some of these to be displayed on lobby tables.
3. Employees to "know" wine.
4. Employees to "talk" wine.
5. Increase wine displays. Decrease spirit displays.
  - a) Sales data (brand file inquiry and system wide) to determine/justify flooring.



- b) Control traffic flow through strategic placement of bins, tables, gondolas.
  - c) Position displays for maximum benefit and exposure. Example: Chardonay POP stack in front of vodkas.
- 6. Improve wine POP material.
  - a) Display shelf talkers.
    - i) Printed data (centrally) regarding top seller in a varietal category.
    - ii) Printed (in-store) signs/cards from recognized authorities/resources.
    - iii) Easel/white board in lobby.
  - b) Excerpts from wine articles. Lim notes, etc., in the lobby.
  - c) Improve signage for wine items.
  - d) Decorations = tasteful, draw attention to (or focus on).
  - e) Obtain quality bins, racks, and back cards from wineries.
- 7. The Board and Supervision must convey the message that wine sales are important. Constant monitoring and reminders and discussion. We are instrumental in starting and reinforcing employee enthusiasm.
- 8. Friendly competition between stores and districts is to be encouraged. District Managers to monitor and compile information to advise the stores and recognize and share successes. Award = product knowledge books?
- 9. Newer videos and wine study courses to be available to the employees. More "LIM" classes (with tastings).
- 10. Temporarily reassign someone to wines only.

11. Supplement Washington Wine Month with several smaller wine month themes.
  - a) German/French/Italian/? wine month.
  - b) "Award Winners" wine month.
  - c) Offer a 15% discount on sales of a case or more of that month's feature.
12. Create a Suggested Basic Wine Selection as a baseline for all stores. Then allow the individual stores to add to it to meet the needs of it's customers.
13. Store manager to decide which wines to display/feature in a POP display(s).
14. Allow the store more flexibility in how they display wines. Let them be creative as long as the law is not broken. More flexibility to go to those who have demonstrated repeatedly that they can deal with it.
15. Customer response card - "We are trying to serve you better. What do you like/dislike about our wine department, selection, arrangement. ?".
16. Develop a better listing system.
  - a) Less time to approve, order, and receive.
  - b) Utilize more one-time-only wines.
17. Handle delisting better.
  - a) Fully utilize stock reduction process.
  - b) Slow selling wine OTOs stay in the system too long before they are closed out.
  - c) Close Out and Stock Reduction items in a shopping cart with signage.
  - d) If it does not sell, do not reorder.
18. Provide gift bags and small carry out packaging.
19. Allow "flex pricing."

20. Reduce the number of TPRs (now too many and customers do not notice).  
Provide a greater discount on the remaining TPRs.
21. Improve the selection of imported and domestic wines.
22. Re-evaluate performance of slow sellers.
  - a) Criteria for stock reduction.
  - b) Create "last chance" section.
23. Allocate facings on a space per sales basis.
  - a) Minimizes out of stocks.
  - b) Reduces excess shelf inventory.
24. Design a special order form for use in the computer.
  - a) Send price requests to Purchasing on this form.
25. Neighboring stores could share a special order item (available to more people while keeping inventory levels down).

## Recommendations

### Stay in the Wine Business

As this study points out, it is more costly, at least in the short run, to get out of the wine business than it is to stay in. Exhibit 8, Page 15, illustrates that, based on fiscal year 1995, the Board would have realized a net reduction in revenue from its liquor operation of \$2.8 million if it had not been in the wine business with many of the expenses which are currently charged to wines needing to be charged to spirits because they would continue to exist.

The answer, then, is not to get out of the wine business but to become more competitive and to provide a greater level of service to the public that wishes to purchase wine.

### New Wine Program

1. Assign one person as advisor for our wine program from purchase to retail sale for an initial one-year period. The Wine Program will be that person's only assignment.
2. Identify wine items we want to/should carry in state liquor stores and agencies.
  - a) Utilize the Wine Advisory Committee.
  - b) Get Neilson report and/or Infoscan report.
  - c) Identify what items are selling in private sector in Washington by contacting United States wineries.
  - d) Contact major United States wine importers and foreign sources to identify which imported items are selling well in Washington State.

Resp to Costco RFP  
5888

- e) Study sales data in our stores and agencies.
- f) Study major licensed wine stores in Washington.
- g) Attend trade shows and distributor tastings.

3. Wine purchases.

- a) Direct from manufacturer when possible.
- b) From Washington wine wholesaler.

4. Pricing.

- a) Establish markup formula at 35% over standard cost on items purchased direct from the manufacturers and 25% to 35% (Purchasing discretion) on items purchased from Washington wholesalers and continue to give the 10% case discount.
  - i) A 35% markup on cost compares with a current average effective markup of about 45.2% after discounts on delivered cost.
  - ii) It would be necessary to realize a 29.1% increase in dollar sales to make up for a reduction to 35% in the markup rate. If no increase in sales is realized, gross profits would decline about \$1.1 million based on fiscal year 1995.
- b) Price to the odd penny to give perception of absolute lowest price, but give Purchasing flexibility to reflect market sensitivity.

5. Streamline listing/delisting process.

- a) Board to allow exception to one-year trial period for wine after an item is listed. It will stand or fall based on immediate market conditions during this initial one-year period. The Board will be provided a list of actions taken on a periodic basis.
- b) Realize three- to four-week interim period from order decision to availability in liquor stores.
- c) Implement brand code assignment on manager special orders to facilitate inter-store transfers and reorder.
- d) Review special order sales for regular item listings.
- e) Have managers fully implement current stock reduction and store transfer programs for slow selling items.

6. Distribution.

- a) Those items selected by the Wine Advisory Committee and those wines determined to be high demand items will be automatically distributed to the stores having 75% of the Board's wine sales. Manager option and lesser forceouts for selected markets for the balance of the outlets.
- b) Ship pallet board of product to one store in a given market, such as Spokane, and then distribute to other stores with transfers when quick distribution is needed.
- c) Work with store managers and agency vendors individually to maximize service to local communities and for liquor agency vendors to provide them greater market opportunities.

7. Shelf arrangement including displays and signage.

- a) The basic shelf set will be by type with flexibility to allow for justified exceptions. The shelf set for economy and box wines, however, will be by winery.
- b) The shelf flow will be as follows:
  - i) Domestic table

- ii) Imported table
- iii) Sparkling
- iv) Desserts
- v) Economy
- vi) Box wines

See Exhibit 10, page 35.

- c) Prominently display items to build market share.
- d) Wine location in store dependent on shape of store.
  - i) Wide lobby - wine in back, right to left.
  - ii) Square or deep lobby - wine on right, right to left.
- e) Utilize tables for bulk wines and gondolas for better wines. Modify existing and/or create new fixtures as needed.
- f) Identify best locations for wine displays with wine displays increasing until they account for 50% of total displays.
- g) Bulk up wine displays. Use case stacking.
- h) State-of-the-art wine/food charts in all stores.
- i) Better signage in store.
  - i) Shelf talkers.
    - a) State "Selected by Wine Advisory Committee" where applicable.



- b) Include Wine Spectator score where applicable.
  - c) Centrally printed, top sellers in varietal categories, etc.
  - d) In-store printed, quoting recognized authorities.
- ii) Easel/white board in lobby.
- iii) Excerpts from wine articles, Lim notes, etc., in lobby.
- j) Obtain quality bins, racks and back cards from wineries.
  - i) Develop program to get materials to the stores from Olympia, from the distribution center, and from other sources.
  - ii) Purchase mailing totes for such material.
- k) Poster on Wine Advisory Committee, purpose/makeup.
- 8. Notification of new wine program.
  - a) Hand distribution.
  - b) Employees.
  - c) Customers, word-of-mouth.
- 9. Employee education and training.
  - a) Be friendly, courteous, and helpful.
  - b) Survey the employees for their ideas/opinions.
  - c) Train employees to think wine and talk wine.
  - d) Videos on basic wine knowledge.
  - e) How to merchandise and care for wines in the store.
  - f) Wine Spectator magazine in all stores and for selected staff.

- g) Material from Wine Institute and wineries in stores.
  - h) Teach employees how to initiate customer feed-back.
10. Customer feed-back.
- a) Pre-posted wine related comment cards which can be left in specially marked box in store or mailed from the home.
  - b) Have store employees acknowledge customers and encourage them to ask questions and critique our program.
11. Cost/benefit expectation from changes in wine program.
- a) Increased costs.
    - i) Signage.
    - ii) Display racks.
    - iii) Education and training.
    - iv) Customer feed-back cards.
  - b) Expected increases in wine sales.
    - i) 10% increase in gallonage the first year, allowing for program startup.
    - ii) 30% increase in gallonage in three years.
12. Monitor success of program.
- a) Market share and percent growth in volume sales.
  - b) Affect on gross profit.
  - c) Monthly report to the Merchandise Committee and the Board.

# Shelf Arrangement Flow

## DOMESTIC TABLE

Hogue  
Ste. Michelle  
Columbia  
Ste. Chapelle  
Knudsen Erath  
Parron Ridge

Cypress  
Kenwood  
Mirassou  
Mondavi

Gallo  
Amaden  
Sebastiani  
Inglenook  
Glen Ellen  
Sutter Home

Walnut Crest  
Rene Junot  
Red Hill  
Marcus James  
Casarsa  
Blue Nun

## Sparkling/Dom

Cook's  
Andre  
Korbel  
Domain Ste. Michelle

## Box Wines

Franzia  
Colony  
Peter Vella  
Cribari

## Economy

Carlo Rossi  
Colony  
Masson  
Franzia

## Desserts

Gallo  
Harvey's  
Snoqualmie  
Whidbey's  
Masson

## Sparkling/Imp

Mumm's  
Codorniu  
Martini and Rossi

WINE ADVISORY COMMITTEE MEMBERS/STAFF

STEVE BURNELL, MEMBER  
WINE ADVISORY COMMITTEE  
14009 279TH LANE NE  
DUVALL, WA 98019  
(206) 844-2257 HOME  
1-800-386-0866 WORK  
FAX (206) 746-0205

JEFF MARR, MEMBER  
WINE ADVISORY COMMITTEE  
5640 KITSAP WAY  
BREMERTON, WA 98310  
(360) 373-3579  
(360) 373-3824 FAX

MARY ANN EKMAN, MEMBER  
WINE ADVISORY COMMITTEE  
1001 4TH AVE  
SEATTLE WA 98154-1101  
(206) 621-9480 EXT 811  
(206) 621-9479

**BOARD MEMBERS**

MIKE MURPHY (360) 753-6263  
JACK RABOURN (360) 753-6265  
NATE FORD (360) 753-6268

WARNER A. JOHANNES, MEMBER  
**CHAIRPERSON**  
WINE ADVISORY COMMITTEE  
P.O. BOX 345  
ABERDEEN, WA 98520  
(360) 532-7580  
(360) 533-3041 FAX

CHUCK HILL, MEMBER  
WINE ADVISORY COMMITTEE  
506 2ND AVE. WEST  
SEATTLE, WA 98119  
(206) 284-8800  
(206) 284-8803 FAX

RICHARD RHODA, MEMBER  
WINE ADVISORY COMMITTEE  
1645 10TH AVE. EAST, SUITE 302  
SEATTLE, WA 98102-4268  
(206) 323-5246

JERRY PATTERSON  
(206) 649-7589 (DIRECT)  
1-800-732-1188 EXT 589  
FAX 206-644-4927  
UNITED FOOD & COMMERCIAL  
WORKERS UNION LOCAL 1001  
12838 SE 40TH PL. SUITE 201  
BELLEVUE, WA 98006-1283

**SHARON ENNIS**  
**P.O. BOX 43096**  
**OLYMPIA, WA 98504-3096**  
**(360) 586-8722**  
**(360) 586-0878 FAX**

**TASTING REPORTS**  
**ATTN: SHARON AND KELLY**  
**(360) 586-0878 FAX**

**JEFF BERGER**  
**WSLCB DISTRICT MANAGER**  
**WASHINGTON MUTUAL BUILDING**  
**500 PACIFIC AVENUE, SUITE 501**  
**BREMERTON, WA 98337-1917**  
**(360) 478-4889**  
**(360) 792-2019 FAX**